

HEARTS OF HOPE
FINANCIAL REPORT
YEARS ENDED DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hearts of Hope
Lafayette, Louisiana

We have audited the accompanying financial statements of Hearts of Hope (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hearts of Hope, as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted of the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2014, on our consideration of Hearts of Hope's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hearts of Hope's internal control over financial reporting and compliance.

Darnall, Sikes, Gardes & Frederick

A Corporation of Certified Public Accountants

Lafayette, Louisiana

June 4, 2014

HEARTS OF HOPE

Statements of Financial Position
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$285,050	\$270,693
Grant funds receivable	48,254	53,228
Other receivables	21,537	2,183
Prepaid expenses	5,724	5,661
Inventory	<u>1,209</u>	<u>6,846</u>
Total current assets	<u>361,774</u>	<u>338,611</u>
PROPERTY AND EQUIPMENT		
Building	515,294	-
Office equipment, furniture and fixtures	71,789	71,789
Leasehold improvements	5,028	5,028
Less: accumulated depreciation	<u>(81,844)</u>	<u>(72,354)</u>
Net property and equipment	510,267	4,463
Construction in progress	<u>-</u>	<u>450,975</u>
Total property and equipment	<u>510,267</u>	<u>455,438</u>
OTHER ASSETS		
Unamortized loan costs, net	633	720
Beneficial interest in assets held by others	<u>54,589</u>	<u>49,989</u>
Total other assets	<u>55,222</u>	<u>50,709</u>
TOTAL ASSETS	<u>\$ 927,263</u>	<u>\$ 844,758</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 7,601	\$ 32,926
Accrued liabilities	139	2,963
Notes payable	-	6,581
Due to Lafayette Consolidated Government	51,395	70,463
Long term debt - current portion	<u>8,814</u>	<u>8,322</u>
Total current liabilities	<u>67,949</u>	<u>121,255</u>
LONG TERM DEBT - NET OF CURRENT PORTION	<u>75,858</u>	<u>84,672</u>
TOTAL LIABILITIES	<u>143,807</u>	<u>205,927</u>
NET ASSETS		
Unrestricted net assets	679,006	540,344
Temporarily restricted net assets	<u>104,450</u>	<u>98,487</u>
Total net assets	<u>783,456</u>	<u>638,831</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 927,263</u>	<u>\$ 844,758</u>

See independent auditor's report and notes to the financial statements.

HEARTS OF HOPE

Statements of Activities For the years ended December 31, 2013 and 2012

	2013	2012
UNRESTRICTED NET ASSETS		
SUPPORT		
Donations	\$ 214,355	\$ 174,492
United Way of Acadiana	56,632	60,502
United Way of Iberia	332	5,160
Fundraisers	109,292	75,710
In-kind donations	84,415	82,978
Total support	465,026	398,842
REVENUES		
Service fees	64,764	52,072
Interest income	127	152
Total support and revenues	529,917	451,066
Total net assets released from restrictions	280,878	377,697
Total unrestricted support	810,795	828,763
EXPENSES		
Program Activities		
Children's Advocacy Center	212,848	136,673
Sexual Abuse Response Center	193,707	288,237
Sexual Assault Nurse Examiners	139,924	27,425
Total	546,479	452,335
Management and general expenses	125,654	65,871
Total expenses	672,133	518,206
Increase in unrestricted net assets	138,662	310,557
TEMPORARILY RESTRICTED NET ASSETS		
SUPPORT		
CDBG Grant	59,189	170,811
CFC Grant	502	545
Children's Trust Fund	5,000	-
Community Foundation of Acadiana	-	50
Crime Victims Association Grants	103,262	107,136
LCG Grant- External Agency	13,765	12,345
Lourdes Foundation	3,500	3,500
Moncus Foundation	25,000	25,000
NCA Grant	9,000	10,000
Pinhook Foundation	500	5,000
Rape Prevention Education	23,674	17,443
Sexual Assault Services Program Grant	20,437	10,444
VAWA Grant	17,049	15,423
Total support	\$ 280,878	\$ 377,697

See independent auditor's report and notes to the financial statements.

HEARTS OF HOPE

Statements of Activities For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Investment earnings on endowment	\$ 831	\$ 513
Unrealized gain (loss) on endowment investments	<u>5,132</u>	<u>3,465</u>
Total support and revenues	286,841	381,675
Net assets released from donor restrictions	<u>(280,878)</u>	<u>(377,697)</u>
Change in temporarily restricted net assets	<u>5,963</u>	<u>3,978</u>
INCREASE IN NET ASSETS	144,625	314,535
NET ASSETS AT BEGINNING OF YEAR	<u>638,831</u>	<u>324,296</u>
NET ASSETS AT END OF YEAR	<u>\$ 783,456</u>	<u>\$ 638,831</u>

See independent auditor's report and notes to the financial statements.

HEARTS OF HOPE

Statement of Functional Expenses
Year ended December 31, 2013

	CAC PROGRAM ACTIVITIES	SARC PROGRAM ACTIVITIES	SANE PROGRAM ACTIVITIES	MANAGEMENT AND GENERAL	TOTAL
Compensation and related expenses:					
Salaries	\$ 141,385	\$ 121,253	\$ 115,364	\$ 25,242	\$ 403,244
Employee benefits -					
Payroll taxes	6,289	5,393	5,131	1,123	17,936
Group insurance	8,853	17,875	-	-	26,728
Retirement	<u>700</u>	<u>940</u>	<u>-</u>	<u>-</u>	<u>1,640</u>
	157,227	145,461	120,495	26,365	449,548
Annual project/fundraising	13,541	31,163	-	-	44,704
Bad debt expense	-	-	2,500	-	2,500
Bank charges	-	-	-	703	703
Cleaning	-	-	-	2,280	2,280
Depreciation and amortization	2,526	5,327	507	1,217	9,577
Dues and fees	240	75	-	1,559	1,874
Education and professional development	689	1,080	384	3,708	5,861
Foundation/board	-	-	-	2,211	2,211
Insurance	5,822	4,993	4,751	1,039	16,606
Interest	-	-	-	407	407
Legal and accounting	-	-	-	14,965	14,965
Meetings and receptions	458	8	227	417	1,110
Office expenses/supplies	5,631	3,171	4,858	19,428	33,088
Public relations	24,064	-	-	3,024	27,088
Rape kits and supplies	-	-	5,639	-	5,639
Rent/building maintenance	-	-	-	32,277	32,277
Taxes and licenses	-	-	-	1,592	1,592
Telephone	1,862	400	280	100	2,642
Travel	788	1,940	283	719	3,730
Utilities	-	-	-	13,616	13,616
Volunteer development	<u>-</u>	<u>89</u>	<u>-</u>	<u>26</u>	<u>115</u>
Totals	<u>\$ 212,848</u>	<u>\$ 193,707</u>	<u>\$ 139,924</u>	<u>\$ 125,654</u>	<u>\$ 672,133</u>

See independent auditor's report and notes to the financial statements.

HEARTS OF HOPE

Statement of Functional Expenses
Year ended December 31, 2012

	CAC PROGRAM ACTIVITIES	SARC PROGRAM ACTIVITIES	SANE PROGRAM ACTIVITIES	MANAGEMENT AND GENERAL	TOTAL
Compensation and related expenses:					
Salaries	\$ 100,302	\$ 220,226	\$ 16,844	\$ 27,064	\$ 364,436
Employee benefits -					
Payroll taxes	5,309	10,195	-	2,044	17,548
Group insurance	4,269	13,020	-	626	17,915
Retirement	317	924	488	-	1,729
	110,197	244,365	17,332	29,734	401,628
Annual project/fundraising	9,254	20,522	1,456	-	31,232
Bank charges	-	-	-	72	72
Cleaning	159	-	190	1,840	2,189
Depreciation and amortization	788	780	228	144	1,940
Dues and fees	815	75	134	1,155	2,179
Education and professional development	1,750	-	787	4,195	6,732
Foundation/board	-	-	-	591	591
Insurance	3,651	8,096	574	-	12,321
Legal and accounting	1,000	-	-	10,090	11,090
Meetings and receptions	52	-	52	249	353
Office expenses/supplies	5,219	2,814	1,687	8,457	18,177
Public relations	2,121	-	-	567	2,688
Rape kits and supplies	-	-	3,877	-	3,877
Rent/building maintenance	-	-	134	4,778	4,912
Taxes and licenses	-	-	-	1,710	1,710
Telephone	330	120	450	1,204	2,104
Travel	1,040	1,955	-	1,053	4,048
Utilities	297	9,355	524	-	10,176
Volunteer development	-	155	-	32	187
Totals	\$ 136,673	\$ 288,237	\$ 27,425	\$ 65,871	\$ 518,206

See independent auditor's report and notes to the financial statements.

HEARTS OF HOPE

Statements of Cash Flows For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 144,625	\$ 314,535
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	9,490	1,853
Amortization	87	87
Unrealized (gain)/loss on endowment funds	(5,132)	(3,465)
Earnings restricted for long-term endowment	(831)	(514)
Decrease (increase) in:		
Receivables	(14,380)	(15,201)
Inventory	5,637	4,770
Prepaid expenses	(63)	-
Increase (decrease) in:		
Accounts payable	(25,325)	21,863
Due to Lafayette Consolidated Government	(19,068)	29,500
Accrued liabilities	<u>(2,824)</u>	<u>(1,441)</u>
Total Adjustments	<u>(52,409)</u>	<u>37,452</u>
Net cash provided by operating activities	<u>92,216</u>	<u>351,987</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of fixed assets	(64,319)	(176,404)
Transfer of assets to/from endowment fund	<u>1,363</u>	<u>(3,277)</u>
Net cash used by investing activities	<u>(62,956)</u>	<u>(179,681)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term debt	(6,581)	(1,286)
Principal payments on long term debt	<u>(8,322)</u>	<u>(7,859)</u>
Net cash used by financing activities	<u>(14,903)</u>	<u>(9,145)</u>
Net increase in cash	14,357	163,161
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>270,693</u>	<u>107,532</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 285,050</u>	<u>\$ 270,693</u>

See independent auditor's report and notes to the financial statements.

HEARTS OF HOPE

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Hearts of Hope (the Organization) is a non-profit organization that is dedicated to providing help and healing for survivors of sexual trauma and violent crime, to providing help to lessen the trauma experienced by child victims when abuse allegations are investigated and throughout court proceedings and to conducting and documenting skillful forensic evidence collection with compassionate care when a patient makes a disclosure of sexual assault. Staff and volunteers maintain a 24-hour crisis line and provide escort services to the area hospitals.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting

The financial statements of Hearts of Hope have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Recognition of Donor Restrictions

Contributions are recognized as revenue when the donor makes a promise to give the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets.

Donated Services

The Organization recognizes donated services that (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. No amounts have been reflected on the statements for donated services because no objective basis is available to measure the value of such services.

HEARTS OF HOPE

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore has no provision for federal income taxes. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the code. It is also exempt from Louisiana income tax. However, should the Organization engage in activities unrelated to its exempt purpose, taxable income could result. The Organization had no material unrelated business income for the fiscal year under audit.

The Organization's management believes it is no longer subject to income tax examinations for fiscal years prior to December 31, 2010.

Accounting Standards Codification 740 (ASC 740) requires that a tax position be recognized or derecognized based on a "more than not" threshold. This applies to positions taken or expected to be taken in a tax return where there is uncertainty about whether a tax position will ultimately be sustained upon examination. The Organization has evaluated its tax positions and determined that it does not have any uncertain tax positions that meet the requirements of ASC 740. Accordingly, implementation of ASC 740 did not have any impact on the accompanying financial statements.

Inventories

Inventory amounts consist of rape kits. Inventories are valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost for assets purchased and at fair value at the date of donation for contributed assets. Donations of property and equipment are recorded as support at their estimated fair market value and are reported as unrestricted unless the donor has restricted the donated assets for a specific purpose. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years. Additions and betterments of \$500 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation expense was \$9,490 and \$1,853 for the years ended December 31, 2013 and 2012, respectively.

The Organization is housed in a building located at 911 General Mouton owned by the Lafayette Consolidated Government. The Organization has use of the building at no cost and there is nothing in the financial statements to reflect the cost. No fair market value has been determined.

HEARTS OF HOPE

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Sick time is accumulated as a single compensated absence. Ten hours are earned per month for all full-time employees, (employees working 30 hours or more per week). Any unused accumulated balance can be carried forward to the following year. However, it is forfeited upon leaving employment; accordingly, no liability has been recorded in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events

Subsequent events were evaluated through June 4, 2014, which is the date the financial statements were available to be issued.

NOTE 2 IN-KIND DONATIONS

In-kind donations included in the financial statements consisted of salaries provided by the Lafayette Consolidated Government in the amount of \$84,415 in 2013 and \$82,978 in 2012. A corresponding salary expense of \$84,415 and \$82,978, respectively, was recorded.

HEARTS OF HOPE

Notes to the Financial Statements

NOTE 3 ENDOWMENT FUND

In 2003, the Organization transferred \$10,000 to the Community Foundation of Acadiana, Inc. to open an endowment fund for the benefit of the Organization. The Foundation has limited variance power over the fund. In the event that a donor restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the needs of the community, the Foundation may modify the restriction through the exercise of the variance power. Distribution from the Fund can be made solely for the support of the purposes of the Organization once the investment has reached \$1,000,000, as stipulated by the Organization's Board of Directors.

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment fund: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

The endowment investment is reflected in the financial statements as a Beneficial Interest in Assets Held by Others and Temporarily Restricted Net Assets. Changes in the endowment fund net assets were as follows:

	2013	2012
Temporarily Restricted Net Assets, Beginning	\$ 49,989	\$ 42,733
Investment income	830	513
Net appreciation (realized and unrealized)	3,770	6,743
Temporarily Restricted Net Assets, Ending	<u>\$ 54,589</u>	<u>\$ 49,989</u>

HEARTS OF HOPE

Notes to the Financial Statements

NOTE 4 TEMPORARILY RESTRICTED NET ASSETS

Net Assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	2013	2012
Purpose restriction accomplished:		
CDBG Grant	\$ 59,189	\$ 170,811
Children's Trust Fund	5,000	-
Combined Federal Campaign	502	545
Community Foundation of Acadiana	-	50
Crime Victims Association Grants	103,262	107,136
LCG Grant- External Agency	13,765	12,345
Lourdes Foundation	3,500	3,500
Moncus Foundation	25,000	25,000
NCA Grant	9,000	10,000
Pinhook Foundation	500	5,000
Rape Prevention Education	23,674	17,443
Sexual Assault Services Program Grant	20,437	10,444
VAWA Grants	17,049	15,423
Total	<u>\$ 280,878</u>	<u>\$ 377,697</u>

A summary of Temporarily Restricted Net Assets as of December 31, 2013 and 2012 is as follows:

	2013	2012
Temporarily Restricted Net Assets, Beginning	\$ 98,487	\$ 94,509
Change in Temporarily Restricted Net Assets	5,963	3,978
Temporarily Restricted Net Assets, Ending	<u>\$ 104,450</u>	<u>\$ 98,487</u>

NOTE 5 GRANT FUNDS RECEIVABLE

Grant funds receivable at December 31, are summarized as follows:

	2013			
	CAC	SARC	Other	Total
CVA Grant	\$ 14,037	\$ 17,646	\$ -	\$ 31,683
NCA Grant	311	-	-	311
Rape Prevention Education	-	12,911	-	12,911
SASP Grant	-	1,905	-	1,905
VAWA Grant	-	1,444	-	1,444
Total	<u>\$ 14,348</u>	<u>\$ 33,906</u>	<u>\$ -</u>	<u>\$ 48,254</u>

HEARTS OF HOPE

Notes to the Financial Statements

NOTE 5 GRANT FUNDS RECEIVABLE (CONTINUED)

	2012			
	CAC	SARC	Other	Total
CDBG Grant	\$ -	\$ -	\$ 24,068	\$ 24,068
CVA Grant	11,301	12,876	-	24,177
NCA Grant	1,934	-	-	1,934
Rape Prevention Education	-	1,810	-	1,810
SASP Grant	-	1,239	-	1,239
Total	<u>\$ 13,235</u>	<u>\$ 15,925</u>	<u>\$ 24,068</u>	<u>\$ 53,228</u>

NOTE 6 NOTES PAYABLE

	2013	2012
Note payable to a bank related to a \$25,000 line of credit due May 17, 2013, bearing interest at 2.75% above the "Wall Street Journal Prime Rate", collateralized by all deposit accounts and certificates of deposit owned by Hearts of Hope as of December 31, 2013.	<u>\$ -</u>	<u>\$ 6,581</u>

NOTE 7 LONG TERM DEBT

	2013	2012
A note payable to a Trust in the amount of \$135,000, payable in monthly installments of \$1,121, including interest at 5.75% per annum, through September 2021, collateralized by the property purchased.	\$ 84,672	\$ 92,994
Less: Current Portion	<u>(8,814)</u>	<u>(8,322)</u>
Total Long-Term Debt	<u>\$ 75,858</u>	<u>\$ 84,672</u>

Year Ended December 31,

2014	\$ 8,814
2015	9,334
2016	9,885
2017	10,469
2018	11,087
Thereafter	<u>35,083</u>
	<u>\$ 84,672</u>

HEARTS OF HOPE

Notes to the Financial Statements

NOTE 8 OPERATING LEASE OBLIGATIONS

The Organization entered into two long-term leases for digital copiers during fiscal year 2013. The agreements include a monthly base payment plus additional fees for imaging and servicing which may vary from month to month. These leases do not meet the criteria established for capitalized lease reporting; therefore, the leases are reflected as operating leases. Terms of these leases are as follows:

	Monthly Base Payments	Number of Months	Date Lease Originated
Digital copier	\$ 202	60	5/8/2013
Digital copier	449	60	7/1/2013

Future minimum payments by year and in the aggregate, under these operating leases consist of the following at December 31, 2013:

Year Ending December 31,	Gulf Coast Office Products	Gulf Coast Office Products	Totals
2014	\$ 2,424	\$ 5,388	\$ 7,812
2015	2,424	5,388	7,812
2016	2,424	5,388	7,812
2017	2,424	5,388	7,812
2018	808	2,694	3,502
Totals	<u>\$ 10,504</u>	<u>\$ 24,246</u>	<u>\$ 34,750</u>

NOTE 9 RETIREMENT PLAN

The Organization began offering its employees the opportunity to participate in a "Simple IRA" retirement plan in May 2000. All eligible employees who work full time or over 30 hours per week may contribute from one percent (1%) of their gross pay upward. The Organization matches their contribution at two percent (2%) of gross pay. The associated expenses for 2013 and 2012 were \$1,640 and \$1,729 respectively.

NOTE 10 CONCENTRATION OF CREDIT RISK

The majority of the Organization revenues and grants receivable are from sub grants of U.S. Department of Justice Grants through the Louisiana Commission on Law Enforcement and Administration of Criminal Justice. A change in this funding could substantially affect the operations of the Organization.

HEARTS OF HOPE

Notes to the Financial Statements

NOTE 11 CONSTRUCTION IN PROGRESS

During 2006, the Organization purchased the adjacent property. At December 31, 2012 the property remained in unusable condition and renovations were ongoing. The construction was completed in April 2013, at which time \$515,294 was transferred from construction in progress to property and equipment. At December 31, 2013, the cost of the building and renovations was composed of a building valued at cost of \$150,000, capitalized interest of \$46,635, architect's and engineering fees of \$44,587, building improvements of \$251,020 and other related expenses totaling \$23,052.

NOTE 12 COMMITMENTS AND CONTINGENCIES

The Organization has an unused portion of a line of credit in the amount of \$25,000 (collateralized by all deposit accounts and certificates of deposit now owned or acquired hereafter by Hearts of Hope) as of December 31, 2013.

NOTE 13 FINANCIAL INSTRUMENTS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments. The Organization places its temporary cash investments with one high quality financial institution. At times amounts may be in excess of FDIC insurance limits. As of December 31, 2013, the Organization had no significant concentrations of credit risk.

The fair values of the Organization's financial instruments are as follows:

Cash and short-term investments – The carrying amount approximates fair value because of the short maturities of those investments.

Note payable – Fair value approximates carrying value since stated rates are similar to rates currently available to the Organization for debt with similar terms and remaining maturities.

NOTE 14 NONCOMPLIANCE WITH GRANTOR RESTRICTIONS

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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To the Board of Directors
Hearts of Hope
Lafayette, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hearts of Hope (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document, therefore its distribution is not limited.

Darnall, Sikes, Gardes & Frederick

A Corporation of Certified Public Accountants

Lafayette, Louisiana
June 4, 2014

HEARTS OF HOPE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2013

We have audited the financial statements of Hearts of Hope as of and for the year ended December 31, 2013, and have issued our report thereon dated June 4, 2014. We conducted our audit in accordance with generally accepted auditing standards of the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Our audit of the financial statements of December 31, 2013 resulted in an unmodified opinion.

Section I. Summary of Auditors' Reports

a. Report on Internal Control and Compliance Material to the Financial Statements.

Internal Control

Significant Deficiencies	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Material Weaknesses	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Compliance

Compliance Material to Financial Statements	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Section II. Financial Statement Findings

2013-1 Inadequate Controls over Financial Statement Preparation

Finding:

Hearts of Hope does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including related notes.

Recommendation:

Hearts of Hope should evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, to determine if it is in the best interest of the organization to outsource this task and then carefully review the draft financial statements and related footnotes prior to approving them and accepting responsibility for their contents and presentation.

Section III. Federal Award Findings and Questioned Costs

Not Applicable.

HEARTS OF HOPE

SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Section I. Internal Control and Compliance Material to the Financial Statements

2012-1 Inadequate Controls over Financial Statement Preparation

Finding:

Hearts of Hope does not have a staff person who has the qualifications and training to apply generally accepted accounting principles (GAAP) in recording the entity's financial transactions or preparing its financial statements, including related notes.

Follow Up:

Unresolved – See current year finding 2013-1.

Section II. Internal Control and Compliance Material to Federal Awards

Not Applicable

Section III. Management Letter

Not Applicable

HEARTS OF HOPE

MANAGEMENT'S CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2013

Hearts of Hope respectfully submits the following corrective action plan for the year ended December 31, 2013.

The finding from the December 31, 2013 Schedule of Findings and Questioned Costs is discussed below. The finding is numbered consistently with the numbers assigned in the schedule.

Finding No. 2013-1

Recommendation: Hearts of Hope should evaluate the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP to determine if it is in the best interest of the organization to outsource this task and then carefully review the draft financial statements and related footnotes prior to approving them and accepting responsibility for their contents and presentation.

Action Taken: Hearts of Hope has evaluated the cost vs. benefit and has determined that outsourcing the preparation of the financial statements to the independent auditors is in the best interest of the organization at this time and will carefully review and approve the draft financial and related footnotes prior to issuance.

If the Louisiana Legislative Auditor has questions regarding this plan, please contact Jill H. Dugas, Executive Director, Hearts of Hope, P. O. Box 53967, Lafayette, LA 70505.
Telephone number: 337-269-1557.